

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY KABUL PRIORITY

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E.O. 11652: N/A

TAGS: EFIN

SUBJ: YAQUB LEATHER INDUSTRIES INCORPORATED

1. PLEASE PASS FOLLOWING TEXT OF GENESCO/GENLEATHER LETTER TO BLANCHI OF IDBA, AND USE YOUR BEST EFFORTS TO OBTAIN IDBA APPROVAL THEREOF. THIS CONSTITUTES GENESCO/GENLEATHER FINAL TERMS AND SEEMS REASONABLE IN VIEW RESPECTIVE ROLES OF PARTIES. THIS LETTER ALSO BEING POUCHED.

2. TEXT FOLLOWS: QUOTE FEBRUARY 20, 1974, MR. CLAUDE BLANCHI, FINANCE MANAGER, INDUSTRIAL DEVELOPMENT BANK OF AFGHANISTAN, P.O. BOX 14, KABUL, AFGHANISTAN; DEAR CLAUDE: IMMEDIATELY UPON REACHING THE STATES, YOUR PROPOSAL WAS DISCUSSED WITH GENESCO MANAGEMENT AND WITH OPIC. BOTH OF THEM AGREED TO THE CONCEPT OF IDBA PARTICIPATING ON AN EQUITY BASIS AND TO THE TERMS OF THE SALES AGREEMENT THAT YOU PROPOSED.

I AM OUTLINING THE PRECISE LANGUAGE AND WILL POINT OUT THE VERY MINOR CHANGES IN WORDING THAT HAVE BEEN INCORPORATED TO CLARIFY ALL ASPECTS OF THE ORIGINAL CONCEPT.

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EQUITY PARTICIPATION BY IDBA (TO BE INCLUDED IN THE ARTICLES OF INCORPORATION)

(1) IDBA WILL RECEIVE PREFERRED SHARES IN YAQUB LEATHER INDUSTRIES, INC. EQUIVALENT TO DOLS 30,000.00.

(2) SUCH SHARES HELD BY IDBA SHALL BE PREFERRED ONLY IN AS MUCH AS THEY ARE SCHEDULED FOR REDEMPTION AT PRESCRIBED DATES AT PAR VALUE (THE ISSUANCE PRICE).

REDEMPTION WILL BE AT PAR VALUE AT THE FOLLOWING TIMES: 1/3 REDEEMABLE AT THE END OF 9TH YEAR - 1/3 REDEEMABLE AT END OF 10TH YEAR - 1/3 REDEEMABLE AT END OF 11TH YEAR.

(3) SUBJECT TO THE REQUIREMENTS OF SUBSECTION 7.3 OF THE OPIC LOAN AGREEMENT, EACH YEAR THE CORPORATION SHALL PAY TO THE OWNERS OF PREFERRED SHARES DIVIDENDS AS COMPUTED BY THE FOLLOWING FORMULA: (PREFERRED STOCKHOLDERS ORIGINAL CAPITAL INVESTMENT) DIVIDED BY (TOTAL CAPITAL INVESTMENT ((PREFERRED & COMMON SHAREHOLDERS)) PLUS RETAINED EARNED SURPLUS) MULTIPLIED BY (NET DISTRIBUTABLE EARNINGS FOR SUCH YEAR) EQUALS (PREFERRED DIVIDENDS).

(4) THE PREFERRED SHARES SHALL NOT BE ENTITLED TO ANY MINIMUM OR CUMULATIVE DIVIDENDS OTHER THAN THEIR SHARE OF THE EARNED SURPLUS AS IN (3) AFORESAID.

REMARKS:

CLAUDE, THE REDUCTION OF PREFERRED SHARES FROM DOLS 50,000.00 TO DOLS 30,000.00 IS IN CONFORMITY WITH THE DESIRES OF THE AFGHAN PRINCIPALS, (AS WE DISCUSSED IN MY HOTEL ROOM).

IN (3) FOREGOING, GENESCO FINANCE PEOPLE HAVE PRECISELY DEFINED IN AN EQUATION "DISTRIBUTABLE PROFITS" SO THAT THERE WILL BE NO AMBIGUITY IN ITS INTERPRETATION.

IN YOUR LETTER GIVEN TO ME IN AFGHANISTAN, YOU MENTIONED THE FACT THAT TWO POINTS WILL BE OF INTEREST TO IDBA. THAT (A) GENLEATHER WILL BE ON THE SAME FOOTING WITH THE OTHER BIDDERS FOR PRODUCTS UNCLASSIFIED

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OF THE CORPORATION AND (B) THE ROYALTY CHARGED BY GENLEATHER.

YOU WILL NOTE FROM THE FOLLOWING SECTION EXCERPTED FROM THE SALES AGREEMENT, THAT GENLEATHER IS ON THE SAME FOOTING AS THE OTHER BIDDERS AND (B) THE ROYALTY CHARGED BY GENLEATHER WILL BE 5 PERCENT. THIS IS THE VERY MINIMUM THAT GENESCO AND GENLEATHER WILL AGREE ON.

PROPOSED AMENDMENT TO SALES AGREEMENT

(7) THE SALES PRICES OF THE SKINS SHALL BE DETERMINED IN AFS. ON A FAIR AND REASONABLE BASIS EVERY THREE MONTHS AS FOLLOWS:

(A) FIFTEEN DAYS PROR TO THE BEGINNING OF EACH 3 MONTH PERIOD DURING THE TERM OF THIS AGREEMENT, THE CORPORATION SHALL OFFER TO SELL TO GENLEATHER THE PRODUCTION OF THE CORPORATION FOR THAT THREE MONTH PERIOD.

(B) THE PRICE TO BE PAID BY GENLEATHER TO THE CORPORATION SHALL BE UNANIMOUSLY AGREED UPON BY ALL COMMON SHAREHOLDERS OF THE CORPORATION. THE WRITTEN APPROVAL OF ANY 2 MEMBERS OF THE YAQUB GROUP (AS THAT TERM IS DEFINED IN THE OPIC LOAN AGREEMENT) SHALL CONSTITUTE THE APPROVAL OF ALL MEMBERS OF THE YAQUB GROUP.

(C) SHOULD THE ABOVE PARTIES FAIL TO AGREE UPON THE PRICE OF THE SKINS, THEN THE CORPORATION MAY SOLICIT BIDS FROM OTHER BUYERS IN THE INTERNATIONAL MARKET. GENLEATHER MAY ALSO BID ON THE SKINS AT THIS TIME. SHOULD GENLEATHER BE THE HIGHEST BIDDER FOR THE SKINS, THE THREE MONTH PRODUCTION OF SKINS SHALL BE SOLD TO GENLEATHER. SHOULD GENLEATHER NOT BE THE HIGHEST BIDDER, THEN THE CORPORATION SHALL OFFER TO SELL THE SKINS TO GENLEATHER AT THE HIGHEST BID. SHOULD GENLEATHER REFUSE TO PURCHASE THE SKINS AT THE HIGHEST BID, THEN THE CORPORATION MAY SELL THE THREE MONTH PRODUCTION OF SKINS TO THE HIGHEST BIDDER.

(D) IN THE EVENT THAT 3 MONTHS PRODUCTION IS SOLD TO A THIRD PARTY BIDDER NOT RELATED TO GENLEATHER OR GENESCO, THEN THE CORPORATION SHALL PAY GENLEATHER A COMMISSION EQUAL TO 5 PERCENT OF THE TOTAL PRICE OF THE SKINS. THIS COMMISSION SHALL BE PAID IN CONSIDERATION OF GENLEATHER'S FURNISHING TO THE CORPORATION THE TECHNICAL, MARKETING AND MANAGEMENT ASSISTANCE AS SET FORTH IN THIS AGREEMENT.

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(E) IT IS THE INTENTION OF THE PARTIES TO THIS AGREEMENT THAT THE CORPORATION SHALL, AT ALL TIMES DURING THE TERM OF THIS AGREEMENT, BE PROFITABLE.

(F) PAYMENT FOR THE SKINS SHALL BE MADE UPON DELIVERY OF THE SKINS AND PRESENTATION OF PROPER DOCUMENTATION.

REMARKS:

THE FOREGOING EXCERPTED SECTION, YOU WILL NOTE, IS ALMOST THE SAME AS WE REDUCED TO A ROUGH DRAFT IN AFGHANISTAN. A FEW CHANGES HAVE BEEN MADE IN THE WORDING TO MAKE IT MORE PRECISELY RESPONSIVE TO THE CONCEPT AND AGREEABLE TO ALL THE VARIOUS PARTIES.

WE BELIEVE THAT THESE ARRANGEMENTS BRING ALL THE PARTIES INTO

AGREEMENT. PLEASE SEND ME A WIRE ACKNOWLEDGING YOUR APPROVAL OF THE PROPOSAL SO THAT WE CAN COORDINATE THE SETTING UP OF A DATE TO FINALIZE THE PROJECT.

SINCERELY YOURS,

BALBIR S. MATHUR
CONSULTANT TO GENESCO END QUOTE

3. PLEASE PASS A COPY OF THIS TELEGRAM TO SAM TARAHI, OPIC'S LEGAL COUNSEL.

4. THANK YOU FOR YOUR ASSISTANCE. RUSH

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